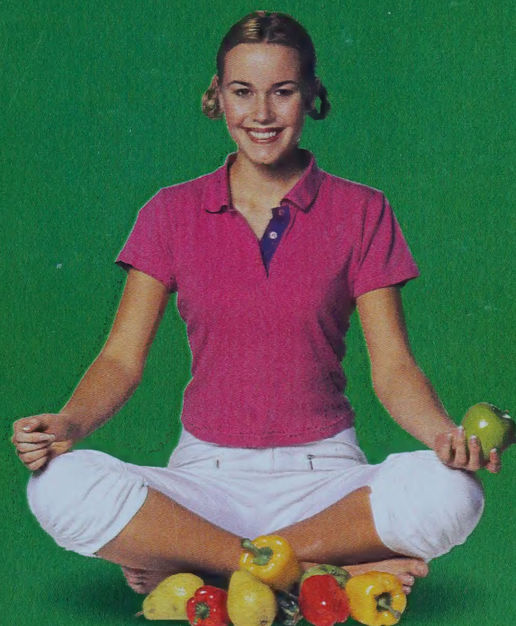
Become a *healthier Earthling.*



ANNUAL REPORT
2005/2006

PLANET ORGANIC
HEALTH CORP

In 2005 Planet Organic Health Corp was named to the TSX Venture 50 as one of Canada's top emerging public companies.

We think everyone should go *au naturel.*

"We believe that a business will thrive only to the degree that it is committed to improving the well-being of its customers and of our world."

Planet Organic Health Corp began selling natural & organic food for three reasons:

- to contribute to the personal well-being of customers
- to protect the health of the Earth
- to make eating a robust and joyful event.

By remaining committed to consolidating the natural products market; providing high quality organic and natural products; and emphasizing customer service, community involvement and employee satisfaction, Planet Organic Health Corp. has created the unique opportunity to seize the leadership position in Canada with a goal of maximizing shareholder value. In a very short time, Planet Organic Health Corp has expanded into a forward-thinking national chain with locations in 5 provinces. Key divisions include:

- eight Planet Organic Market supermarkets
- 47 Sangster's Natural Health outlets
- seven Healthy's Nutrition stores in Ontario
- Trophic Vitamins, Canada's leading manufacturer of natural supplements.

Planet Organic Markets

Growth of Planet Organic Heath Corp began in 2001 when Darren Krissie joined Mark Craft and Diane Shaskin, owners of Terra Natural Food Market in Edmonton, to create Planet Organic Health Corp and bring the natural food experience to customers across Canada. Immediately following their IPO on the Venture Exchange,Terra was relocated and re-branded as "Planet Organic Market". Over the next three years the company added Planet Organic Markets in Victoria, Port Coquitlam, Calgary, Port Credit and Halifax.

Sangster's Health Centres

Sangster's was purchased by Planet Organic in 2004. Founded by Roy and Pat Sangster, the first Sangster's Health Centre opened in Yorkton, Saskatchewan in 1971. Sangster's produces over 300 exclusive private label vitamin and supplement products, all manufactured in Canada to the industry's highest standard. Recently, the company was awarded a site license under The Government of Canada's stringent new Natural Health Products Regulations (NHP) making it the only Canadian retailer with this designation. In addition, the company produces the proprietary full-colour magazine, "Natural Living", for distribution in all locations.

Trophic Canada

Trophic was purchased by Planet Organic in 2005. Trophic Canada is the only Canadian-owned manufacturer with a quality control analytical laboratory on site. Founded in 1967, and acquired in 1978 by Planet Organic Chairman & CEO Ron Fransisco, Trophic Canada has grown to become one of Canada's largest supplement makers. Trophic Canada manufactures and sells over 150 vitamin, mineral and herbal supplements, from Vitamin A to Zinc Chelate. Using the highest quality raw materials and top manufacturing practices, Trophic Canada has gained a reputation as the highest quality manufacturer of supplements in Canada.

Healthy's Nutrition

Healthy's was purchased by Planet Organic in 2006. Widely respected throughout the industry, Healthy's Nutrition is a responsible and caring healthy lifestyle store with locations throughout Ontario. Committed to stocking only the highest quality natural supplements, the award-winning and highly educated staff provides a level of service that is second-to-none. A re-branded look for Healthy's Nutrition will launch in late 2006 at the flagship Toronto location, with the rest of the stores to follow suit over the next few years.

Planet Organic Health Corp.
Corporate Profile

Planet Organic Health Corp (TSX-V: POH) is one of Canada's largest natural products company, comprising retail, manufacturing and distribution. The Company's primary focus is the retail division, which encompasses mid-sized format market stores and smaller natural health outlets. Planet and its subsidiaries conduct business throughout Canada under four banners; Planet Organic Market, Sangster's Health Centres, Healthy's and Trophic Canada. The Company's vision is to strategically grow its retail divisions through new store development and acquisitions. In addition, to vertically integrate with key manufacturers and distributors allowing us to have greater economies of scale and create a stronger company that can help to strengthen the independents in the Canadian natural products industry. Our first step into vertical integration was the acquisition of Trophic Canada in January 2005. Trophic is a leading manufacturer and distributor of supplements and herbal remedies in Canada.

All our mid size market stores feature a full range of organic, natural and clean products free of artificial flavors, sweeteners, colors, preservatives and added chemicals. They also contain a bountiful selection of organic produce, and our delis are filled with baked goods, salads and take home meals. Our natural living departments offer an excellent selection of vitamins, supplements, sports nutrition and body care products. Our smaller health outlets offer a vast selection of exclusive private label vitamins as well as other major brands and body care products. Planet Organics' goal is to provide customers with a warm shopping environment, excellent customer service while emphasizing community involvement and employee satisfaction.

Highlights

- In July 2004, the Company completed the acquisition of Sangster Enterprises and Darwen Holdings, a chain of 35 supplement and body care stores with locations across Canada that operate under the Sangster's Health Centres banner.
- In August 2004, the Company completed the acquisition of Great Ocean Natural Foods, a 7,500 square foot full market store located in Halifax.
- On January 3, 2005 Planet Organic Health Corp completed the acquisition of Trophic Canada, one of the Nation's leading vitamin manufacturers and distributors.
- Planet completed the re-branding and renovation of the Victoria location and an expansion of the Edmonton location. The Edmonton location now exceeds 10,000 square feet, an overall increase of 25%. It has an in house commissary preparing new deli and baking creations, an expanded produce selection, and larger grocery and natural living sections.

- On July 31, 2005, the Company acquired Newfound Health, a chain of 14 franchised locations located throughout Alberta. The Newfound chain was folded under the Sangster's division and rebranded into a Sangster's Health Centre.
- The Company acquired a chain of seven natural health outlets on June 1, 2006, operating under the Healthy's banner.
- The Company added three additional market locations to their portfolio; Alternatives Market in Port Credit Ontario, which is presently under construction for rebranding; subsequent to the year end, the Company acquired The Big Fresh, a 5,000 square foot store in Edmonton and opened a new 10,000 square foot location in Calgary.
- Consolidated revenues increased $10.5 million over last year, an increase of 39%.
- Consolidated income from operations before corporate expenses increased 117% over last year.
- Net income for the year increased 549% over last year.

Prior to the above, Planet Organic has completed the following milestones:

- The first location, Terra Natural Food Market and Café, located in the Old Strathcona district of Edmonton, Alberta was relocated to a new 8,000 square foot retail space in January 2002.
- Planet Organic completed the acquisition of the operating assets of Capers Community Market in Victoria, BC during February 2002 and renamed the location Planet Organic Market.
- In January 2003, the Company opened a 10,000 square foot retail outlet in Calgary, Alberta.
- In January 2004, the Company opened an 8,000 square foot retail outlet in Port Coquitlam, B.C.

Planet Organic Health Corp Management Discussion and Analysis for the Year Ended June 30, 2006

The Management Discussion and Analysis of the operational results and financial condition of Planet Organic should be read in conjunction with the Company's annual audited consolidated financial statements and accompanying notes thereto.

The information below contains certain forward-looking information which reflect the current view of Planet Organic Health Corp. Any such forward looking information is subject to risks and uncertainties and therefore the Company's actual results of operations could differ from historical results or current expectations. The Company assumes no obligation to publicly update or revise its forward-looking statements even if experience or future changes make it clear that any projected results expressed or implied therein will not be realized.

Results of Operations

Revenues

Consolidated revenues for the year ending June 30, 2006 were $37.7 million compared to $27.2 million for fiscal 2005, an increase of 39% or $10.5 million. If we include total system sales from the Sangster's division (system sales include all net retail sales from franchised and corporate stores) the Company generated over $47 million of revenue. This increase is directly attributed to revenue generated from the acquisition of Newfound Health, same store sales growth at both retail divisions and sales growth from the manufacturing division.

Annual revenue from the retail segment **(Planet Organic Market)** was $27.5 million, which accounts for 71% of total consolidated revenue. Revenue growth was driven by the Company's implementation of a strategic marketing campaign, well executed customer service at the store level and strategically merchandised and designed stores, which all attribute to our goal of providing the ultimate "shopping experience". Planet Organic Market's same store sales (stores in the same locations in both reporting periods) increased 36% over last year. There were five market stores in the system for fiscal 2006 totaling 41,704 square feet. Subsequent to the year-end, one new 10,000 square foot location was opened in Calgary, one 5,000 square foot location acquired in Edmonton and another under construction in Ontario.

(Healthy's), the 7-store chain we acquired on June 1, recorded revenue of $273,000 for the month of June. Sales were consistent with our expectations. Healthy's will be going through a re-branding starting with the first location in late 2006 followed by the remaining stores over the next few years. The re-brand will be the true test to driving same-store sales.

The franchise segment **(Sangster's Health Centres)** generated corporate revenue of $4.4 million and franchise royalty revenue of $709,449 for the fiscal year ended June 30, 2006. Sangster's revenue accounted for 13% of total consolidated revenue for the year. System sales from the franchise division for the year were $15.4 million (system sales include net retail sales from all franchised and corporate stores under the Sangster's banner). Comparative store sales (total system sales) at the Sangster division were up 2% over the previous year. As at June 30, 2006, the Sangster division had five corporate stores and 42 franchised locations in operation.

The manufacturing and wholesale segment **(Trophic Canada)** generated revenue of $6.5 million for the year ended June 30, 2006, which accounted for 17% of total revenue. In fiscal 2006, the Company started to realize significant synergies from retail to the manufacturing division. Sales of Trophic product increased substantially at the larger market stores and smaller health centers. Trophic's sales were up 9% over the previous year.

The retail and manufacturing environment remained positive and the company continued to execute their growth strategy. All product categories were consistent with expectations. Synergies between manufacturing and retail started to materialize in fiscal 2006 and will continue to improve into 2007.

Selling, General and Administrative Expenses

SG&A are direct operating expenses and encompass occupancy costs, wages, supplies, marketing and advertising, admin costs, repairs, store maintenance and staff travel and promotion. Since SG&A costs are directly linked to the number of locations and divisions, these costs will rise in dollar value, however, our objective is to implement synergies to streamline costs where possible and lower SG&A as a percentage of sales. This will be achieved as our market stores and health centres reach maturity, which brings into line items such as wage costs, marketing and occupancy costs. SG&A costs for the year were $11.5 million or 30.5% of sales compared to $8.8 million or 32.6% of sales for the same period last year. As mentioned above, SG&A costs increased in dollar value but dropped by 2.1% as a percentage of sales. SG&A will fluctuate as we complete new acquisitions and integrate the different operating divisions.

Earnings Before Interest, Income Taxes, Depreciation and Amortization

Fiscal 2006 EBITDA increased 148% to $2.9 million from $1.1 million in fiscal 2005. EBITDA as a percentage of sales increased to 7.8% from 4.4% last year. The gain pertains to the maturing of the market stores, the acquisition of Newfound Health and the increase in sales at Sangster's and Trophic. (EBITDA is a non-GAAP measure and is earnings before interest, taxes, depreciation, amortization and stock-based compensation).

SUMMARY OF SEGMENTED ANNUAL RESULTS

The following table contains segmented financial information on each of the Corporation's divisions before consolidation entries and corporate expenses. SG&A is net of interest and amortization. Net revenue does not include miscellaneous income. Healthy's is not reported below since only one month of operations was included in fiscal 2006 results.

Fiscal 2006	Planet Organic Market	Sangster's Health Centres	Trophic Canada
System Sales	Nil	$15,489,752	Nil
Net Revenue	$27,519,156	$5,124,673	$6,528,099
Selling, General and Administration	$7,854,197	$1,776,069	$2,145,690
EBITDA	$1,790,403	$544,912	$1,655,915
EBITDA as percent of sales	6.5%	10.7%	25.4%
EBT	$1,162,257	$445,045	$1,392,946

SUMMARY OF QUARTERLY RESULTS

Fiscal Years	2005				2006			
Quarterly Period	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenues	4,686,354	6,059,482	8,019,459	8,446,884	8,487,024	9,193,896	10,109,945	10,006,937
Net Income (loss)	(40,344)	(69,393)	391,300	189,143	169,073	498,966	785,438	261,267
Before Tax Basic Earnings (loss) per share	-	-	0.014	0.01	0.01	0.018	0.028	0.009
Diluted Earnings per share			0.01	0.01	0.01	0.015	0.024	0.008

Corporate Expenses

Corporate expenses include salaries of officers, head office occupancy costs, travel, public company costs, professional fees and business development costs. Corporate expenses for the year were $797,802 or 2.2% of sales compared to $539,014 or 2.0% of sales reported in 2005. These costs are $258,788 higher than last year (0.2% higher as a percentage of sales). These costs are consistent with our expectations. Corporate expenses will increase as the company expands to manage financial and reporting requirements. These costs will fluctuate marginally as a % of sales.

Amortization and Interest Costs

Total amortization for the year was $866,869 or 2.3% of sales versus $494,733 or 1.9% of sales for fiscal 2005. The increase is due to a larger asset base at the market level from renovating the Edmonton location and the renovation and expansion at the manufacturing division. The largest component of amortization is from the market division, $628,483, driven by fixtures, equipment and set up costs (deferred charges) from new store build-outs, expansions and renovations. Amortization costs at Planet Organic Markets' will remain high as the company continues their build-out strategy. Store set up costs are amortized over a 2-year period. Trophic completed a $1.5 million renovation of their manufacturing facility, which began to be amortized in the first quarter of 2006. Trophic's amortization costs for the year were $157,815. Sangster's is a mature enterprise, and therefore has low amortization costs. Sanster's amortization for the year was

$43,715. The remaining balance of $36,856 was from head office relating to equipment and guarantee fees.

Interest on long-term debt was $132,533 or 0.4% of sales versus $37,340 or 0.2% of sales for fiscal 2005. Interest on long-term debt will fluctuate based on the capital needs of the Company. Interest on short-term debt was $46,294, which is interest paid on operating lines.

Gross Profit/Operating Income

Gross profit for the year increased 43% to $14.6 million or 38.7% of sales compared to $10.2 million or 37.6% of sales for fiscal 2005. This increase in dollar value to gross profit is attributed to the acquisitions made in fiscal 2005 and 2006 as well as same store sale growth in the market division. The percentage increase is due to higher margins achieved at the Sangster and Trophic divisions. Margins will fluctuate marginally due to various advertising and promotional activity at all segments. Based on industry experience, management estimates that new retail locations will take up to a year and a half to reach our target margins. As the company expands and streamlines internal systems, margins will continue to improve. All product categories contributed to gross profit.

Consolidated income from operations before corporate expenses was $2.7 million compared to $1.2 million in fiscal 2005, an increase of $1.4 million or 117%. The increase is largely due to increased sales volumes from the Market stores, the acquisition of Newfound Health and a full year's revenue from Trophic. These positive results are expected to continue as the Company grows in size and attains greater market share. (The aforementioned figures are calculated by adding back corporate expenses to net income from operations. The calculation does not take into account stock-based compensation, or acquisition costs, as these costs are not directly attributable to divisional operations).

Other Income and Expenses

Other income was $153,174 for the year, which was derived from a class action settlement gain at Trophic for $92,000, interest earned of $20,000, gain on sale of assets of $28,000 and miscellaneous revenues of $14,000. The class action was from a price fixing lawsuit towards manufacturers of certain raw ingredients.

Net Income

The Company generated net income of $1,259,966 compared to a $193,906 for fiscal 2005, an increase of 549% or $1.0 million. Included in the annual net income is stock based compensation of $325,543 and acquisition costs of $70,952. This significant improvement is due to improved operating results at the market stores, positive results from Sangster's and a full year from Trophic operations. Our strong growth plans will continue to drive earnings and we will derive more economies as we streamline systems throughout the organization.

Acquisition Costs

Acquisition costs of $70,952 are noted separately on the income statement since they are not part of operating activities. These costs relate to the acquisition of Newfound Health in July of 2005 and Healthy's in June 2006. They will vary from quarter to quarter due to acquisition activity.

Financial Condition and Liquidity

The Company has available a $1.5 million revolving credit facility on a consolidated basis of which $1,236,827 was in use at June 30. Cash and cash equivalents were $470,983. Subsequent to the year-end, 2,500,000 warrants were exercised at $1.00 and the TD Bank advanced a $1.5 million dollar loan to POHC for capital projects. The Corporation has substantial credit available to meet future requirements.

Cash flow from operations, before changes in non-cash working capital accounts, increased to $2.2 million versus $806,654 for the same time period last fiscal year. The increase of $1.4 million or 183% is a significant improvement over last year and is attributable to economies of scale from more locations, higher revenue and operating profit from existing operations and our recent acquisitions. Including changes in non-cash working capital balances, cash flow was $2.3 million versus $1.2 million for fiscal 200, an increase of 84%.

Newly built market stores are budgeted to produce negative cash flow for up to the first eighteen months of operations.

Cash from financing activities was $955,201. The Company received $198,710 from various options being exercised throughout the year. In addition, the Company increased the use of operating lines for $673,685, received proceeds from tenant inducements of $59,706 and repaid capital leases of $69,670.

Cash used in investing activities was primarily used for renovations and expansions at the market stores of $1.0 million and acquisitions of $1.9 million (see note 2). In the retail division, the stores will spend certain funds on capital expenditures to maintain their appearance and to upgrade equipment.

The Company's working capital position at June 30, 2005 was $2.1 million. The company's financial condition and liquidity is adequate to meet its ongoing obligations and continuing operations.

For further disclosure regarding these items refer to the Consolidated Statements of Cash Flows.

Evaluation and effectiveness of disclosure controls and procedures

The Corporation has established and maintained disclosure controls and procedures over financial reporting. The certifying officers have evaluated the effectiveness of the issuer's disclosure controls and procedures as of June 30, 2006 and have concluded that such procedures are adequate and effective to ensure accurate and complete disclosures in annual filings.

List of Directors at date of report:

Ron Francisco, *Director, Chairman and CEO*

Darren Krissie, *Director, VP Corporate Development/CFO*

Mark Craft, *Director, Executive VP*

Roy Sangster, *Director, Executive VP*

Neil Norris, *Director*

Ian Newton, *Director*

Ash Bhasin, *Director*

Planet Organic Health Corp.

Consolidated Financial Statements

For the years ended June 30, 2006 and 2005

Planet Organic Health Corp.

Consolidated Financial Statements

Years ended June 30, 2006 and 2005

CHARTERED ACCOUNTANTS

MacKay LLP

Iveagh House
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Calgary, AB T2P 3H6

Phone: (403) 294 -9292
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Auditors' Report

To the Shareholders of
Planet Organic Health Corp.:

We have audited the consolidated balance sheets of Planet Organic Health Corp. as at June 30, 2006 and 2005 and the consolidated statements of operations and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation as at June 30, 2006 and 2005 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) "MacKay LLP"

Chartered Accountants

Calgary, Alberta
October 26, 2006

Planet Organic Health Corp.

Consolidated Statements of Operations and Retained Earnings (Deficit)

For the years ended June 30,	2006	2005
Sales	$ 37,797,801	$ 27,212,179
Cost of goods sold	23,177,762	17,003,480
Gross profit	14,620,039	10,208,699
Franchise royalty revenue	709,449	456,784
	15,329,488	10,665,483
Operating expenses		
Selling, general and administration	11,527,925	8,865,442
Amortization	866,869	494,733
Interest on short-term debt	46,294	2,456
Interest on long-term debt	132,533	37,340
Corporate expenses	797,802	539,014
	13,371,423	9,938,985
Income from operations	1,958,065	726,498
Other (income) expense		
Interest and other	(153,174)	-
Stock-based compensation	325,543	176,633
Acquisition costs	70,952	78,959
	243,321	255,592
Income before taxes	1,714,744	470,906
Income taxes - Note 13		
Current	526,863	277,000
Future recovery	(72,085)	-
	454,778	277,000
Net income for the year	1,259,966	193,906
Deficit, beginning of year	(942,541)	(1,136,447)
Retained earnings (deficit), end of year	$ 317,425	$ (942,541)
Earnings per share:		
- Basic	$ 0.04	$ 0.01
- Diluted	$ 0.04	$ 0.01
Weighted average number of common shares outstanding:		
- Basic	28,244,220	23,201,569
- Diluted	31,427,888	27,690,596

Planet Organic Health Corp.

Consolidated Balance Sheets

As at June 30,	2006	2005
Assets		
Current		
Cash and cash equivalents	$ 470,983	$ 227,911
Accounts receivable	1,153,516	1,004,090
Inventories	5,239,079	4,118,521
Prepaid expenses	260,385	122,877
Current portion of notes receivable	45,406	55,080
	7,169,369	5,528,479
Notes receivable - Note 4	113,340	162,828
Property and equipment - Note 5	6,011,724	5,168,768
Goodwill and intangibles	6,224,081	3,996,400
Deferred charges - Note 6	166,972	231,271
Deposits - Note 7	105,182	56,946
	$ 19,790,668	$ 15,144,692
Liabilities		
Current		
Bank indebtedness - Note 8	$ 1,236,827	$ 457,628
Accounts payable and accrued liabilities	3,413,087	2,067,670
Income taxes payable	70,021	46,327
Current portion of deferred tenant inducements	71,069	61,120
Current portion of long-term debt	187,200	233,825
	4,978,204	2,866,570
Future income taxes - Note 13	91,330	111,157
Deferred tenant inducements -Note 9	99,506	119,160
Long-term debt - Note 10	1,907,928	1,458,114
	7,076,968	4,555,001
Commitments - Note 16		
Subsequent events - Note 18		
Shareholders' Equity		
Share capital - Note 11	11,797,659	11,239,150
Contributed surplus - Note 12	598,616	293,082
Retained earnings (deficit)	317,425	(942,541)
	12,713,700	10,589,691
	$ 19,790,668	$ 15,144,692

Approved by the Board:

(Signed) "Darren Krissie", Director

(Signed) "Ron Francisco", Director

Planet Organic Health Corp.

Consolidated Statements of Cash Flows

For the years ended June 30,		2006		2005
Cash provided by (used for)				
Operating activities				
Net income for the year	$	**1,259,966**	$	193,906
Add items not affecting cash				
Amortization of property and equipment		**629,787**		375,400
Amortization of intangible assets		**953**		10,000
Amortization of financing fees		**715**		714
Amortization of guarantee fees		**36,142**		21,143
Amortization of deferred charges		**199,272**		87,476
Future income taxes		**(72,085)**		-
Stock-based compensation		**325,543**		176,633
Gain on disposal of property and equipment		**(42,712)**		-
Lease inducement allocated against rent		**(69,411)**		(58,618)
		2,268,170		806,654
Changes in non-cash working capital balances				
Accounts receivable		**(135,590)**		(103,266)
Notes receivable		**59,162**		18,491
Inventories		**(590,001)**		64,420
Prepaid expenses		**(114,923)**		39,436
Income taxes payable		**23,694**		979
Accounts payable and accrued liabilities		**814,035**		443,669
		2,324,547		1,270,383
Financing activities				
Issuance of share capital		**198,500**		3,515,535
Share issuance costs incurred		**-**		(17,756)
Repayment of notes		**-**		(327,556)
Repayments of capital leases		**(69,670)**		(69,365)
Proceeds from long-term debt, net		**92,980**		632,633
Increase (decrease) in bank indebtedness		**673,685**		(172,495)
Deferred tenant inducement proceeds		**59,706**		25,000
		955,201		3,585,996
Investing activities				
Business acquisitions - Note 2		**(1,930,000)**		(3,300,000)
Purchases of plant and equipment		**(1,019,110)**		(1,205,938)
Intangible asset expenditures		**-**		(10,000)
Acquisition costs - Note 2(ii)		**-**		(198,522)
Proceeds on disposal of property and equipment		**72,500**		
Deposits		**(48,236)**		82,145
Deferred development and pre-operating costs		**(111,830)**		(119,808)
		(3,036,676)		(4,752,123)
Increase in cash and cash equivalents		**243,072**		104,256
Cash and cash equivalents, beginning of year		**227,911**		123,655
Cash and cash equivalents, end of year	$	**470,983**	$	227,911
Supplemental disclosure of cash flow activities:				
Cash taxes paid	$	**465,766**	$	230,673
Cash interest paid		**145,023**		34,560
Cash interest received		**24,448**		18,952
Supplemental disclosure of non-cash flow activities:				
Settlement of long-term debt through the issuance of shares	$	**-**	$	435,000
Equipment acquired under the terms of financing agreements		**-**		31,371
Loan guarantee through issuance of shares		**60,000**		-

Planet Organic Health Corp.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2006 and 2005

1. Nature of operations

Planet Organic Health Corp. (the Corporation or "Planet") is a natural products industry company comprising retail, manufacturing and franchising. The Corporation trades on the TSX Venture Exchange under the symbol “POH”. The Corporation, either directly or through its’ subsidiaries, conducts business throughout Canada and operates under the following trade banners: Planet Organic Market, Healthy’s and Sangster’s Health Centres, which are the retail operations; Sangster’s/Darwen Holdings which is the franchise division and Trophic Canada, which is the manufacturing segment.

2. Acquisitions

i) Business acquisitions during 2006

During 2006, the Corporation acquired all of the issued and outstanding shares of Newfound Health Inc. (“Newfound”) effective August 1, 2005 and Healthy’s Nutrition group of companies (“Healthy’s”) effective June 1, 2006. The Corporation also acquired the operating assets of Alternative Markets Inc. (“Alternative”) effective May 1, 2006.

The acquisitions have been accounted for using the purchase method of accounting with the results of operations included in these consolidated financial statements from the dates of acquisition. Details of the allocation of the purchase price is as follows for the acquisitions:

	Newfound	Healthy’s	Alternative	Total
Assets acquired:				
Current assets	$ -	$ 566,978	$ -	$ **566,978**
Property and equipment	-	293,421	190,000	**483,421**
Intangible assets	-	-	100,000	**100,000**
Current liabilities	-	(637,093)	-	**(637,093)**
Long-term debt	-	(44,166)	-	**(44,166)**
Future income taxes	-	(52,258)	-	**(52,258)**
	-	126,882	290,000	**416,882**
Consideration given:				
Cash	500,000	1,140,000	290,000	**1,930,000**
Note payable	335,713	-	-	**335,713**
Common shares	100,000	180,000	-	**280,000**
	935,713	1,320,000	290,000	**2,545,713**
Excess of consideration given over net assets acquired	$ 935,713	$ 1,193,118	$ -	**$ 2,128,831**

The acquisition of Healthy is subject to a contingent earn-out based on performance and achieving new business targets.

Planet Organic Health Corp.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2006 and 2005

2. Acquisitions - Continued

ii) Business acquisitions during 2005

During 2005, the Corporation acquired all of the issued and outstanding shares of Sangster group of companies ("Sangster") effective July 31, 2004 and Great Ocean Natural Foods and Gifts Ltd. ("Ocean") effective August 31, 2004 and Trophic Canada Ltd. ("Trophic") effective January 3, 2005. Trophic is a related party as the sole shareholder of Trophic is an officer and director of the Corporation. As a result, the acquisition of Trophic has been recorded at the carrying values and all associated acquisition costs have been charged to operations.

The acquisitions have been accounted for using the purchase method of accounting with the results of operations included in these consolidated financial statements from the dates of acquisition. Details of the allocation of the purchase price for the acquisitions are as follows:

	Sangster	Ocean	Trophic	Total
Assets acquired:				
Current assets	$ 1,598,638	$ 298,938	$ 2,014,904	**$ 3,912,480**
Property and equipment	405,442	99,310	1,909,734	**2,414,486**
Goodwill	-	-	88,350	**88,350**
Current liabilities	(376,588)	(450,319)	(598,321)	**(1,425,228)**
Long-term debt	(110,000)	(47,681)	(933,852)	**(1,091,533)**
Future income taxes	(14,000)	(4,042)	(93,115)	**(111,157)**
	1,503,492	(103,794)	2,387,700	**3,787,398**
Consideration given:				
Cash	2,000,000	1,300,000	-	**3,300,000**
Common shares	1,500,000	200,000	2,387,700	**4,087,700**
	3,500,000	1,500,000	2,387,700	**7,387,700**
Excess of consideration given over net assets acquired	$ 1,996,508	$ 1,603,794	$ -	**$ 3,600,302**

3. Significant accounting policies

The consolidated financial statements have, in management's opinion, been properly prepared in accordance with Canadian generally accepted accounting principles and within reasonable limits of materiality and the framework of the significant accounting policies summarized below:

(a) Basis of consolidation

These consolidated financial statements include the accounts of the Corporation and its' wholly-owned subsidiaries. All significant inter-corporation balances and transactions have been eliminated.

Planet Organic Health Corp.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2006 and 2005

3. Significant accounting policies – Continued

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash in bank, cash on hand and instruments with a maturity dates of three months or less.

(c) Inventories

Retail inventories are valued at the lower of cost, which is primarily determined on a first-in, first-out basis and net realizable value less normal profit margins as determined by the retail method of inventory valuation. Warehouse inventories are valued at the lower of cost and net realizable value with cost being determined substantially on the first-in, first-out basis. Manufacturing inventories consist of finished products which are valued at the lower of cost and net realizable value.

(d) Property and equipment

Property and equipment are stated at cost. Amortization is provided using the following annual rates and methods which are designed to apportion the cost of the assets over their estimated useful lives as follows:

	Method	Rate
Software	Straight-line	100%
Signage	Diminishing balance	20%
Computers	Diminishing balance	30%
Office equipment	Diminishing balance	20%
Production equipment	Diminishing balance	10%
Retail equipment and fixtures	Diminishing balance	20%
Building	Diminishing balance	5%
Leasehold improvements	Straight-line	Initial term of lease plus one renewal period

(e) Goodwill

The cost of acquiring businesses is allocated to the fair value of the related net identifiable tangible and intangible assets acquired. The excess cost of the acquired businesses over the fair value of the related net identifiable and intangible assets acquired is allocated to goodwill.

Goodwill is reviewed by management on at least an annual basis to determine whether there is any impairment in value. Goodwill is tested between annual tests when an event or circumstance occurs that more likely than not reduces the fair value of the goodwill of a reporting unit below its carrying amount. An impairment in value is calculated based on the fair value of the estimated recoverability through projected cash flows, operating income and the fair value of Corporate assets compared to the carrying amount of the goodwill of the appropriate reporting unit.

For the years ended June 30, 2006 and 2005, the Corporation has concluded that no provision for impairment is required.

Planet Organic Health Corp.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2006 and 2005

3. **Significant accounting policies - Continued**

(f) **Intangible assets**

Intangible assets include amounts of the purchase price allocations. Amortization is provided for over the estimated useful life of the asset, using the following annual rate and method:

Non-compete contract	3 years straight-line

(g) **Deferred charges**

(i) **Finance fees**

All costs incurred in raising debt and equity financings are capitalized until such time as the financing is completed or abandoned. When an equity financing is completed, the associated costs will be charged as a cost against equity financing. When a debt financing is completed, the associated costs are amortized over the term of the related financing. If a financing is abandoned, the associated costs will be charged to operations at that time.

(ii) **Development and store pre-opening costs**

All development and pre-opening costs incurred, net of related revenues, during the pre-operating phase of a new retail outlet are capitalized. The pre-operating phase is the period prior to the commencement of commercial operations and is determined by management with reference to activity levels and the passage of a reasonable period of time.

Amortization of these costs begins once commercial operations have commenced and is provided for using the straight-line method over a two year period. If a new retail outlet is abandoned, the associated unamortized costs will be charged to operations at that time.

(iii) **Guarantee fees**

All costs incurred to obtain third party guarantees for commitments and loans are capitalized and amortized over the term of the respective commitment or financing. If a guarantor is released from liability prior to the end of the commitment term, the unamortized balance will be charged to operations at that time.

(iv) **Business acquisition costs**

All costs in identifying business acquisitions are capitalized until such time as the acquisition is completed or abandoned. When an acquisition is completed or abandoned, the associated costs are expensed as part of the purchase price.

Planet Organic Health Corp.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2006 and 2005

3. Significant accounting policies - Continued

(h) Impairment of long-lived assets

The Corporation assesses the carrying values of its long-lived assets including property, plant and equipment, intangible assets and deferred charges for impairment when circumstances indicate such amounts may not be recoverable from future operations. Generally, assets to be held and used in operations are considered impaired if the sum of expected undiscounted net future cash flows is less that the assets' carrying values. If impairment is indicated, the loss is measured based on the amounts by which the assets' carrying values exceed their recoverable values. For the years ended June 30, 2006 and 2005, the Corporation has concluded that no provision for impairment is required.

(i) Leases

Leases are classified either as capital or operating in nature. A lease that transfers substantially all of the benefits and risks incidental to the ownership of property is classified as a capital lease. All other leases are accounted for as operating leases, wherein rental payments are expensed as incurred.

(j) Revenue recognition

Revenues from product sales are recognized at the point of sale to the retail customer and are stated net of related discounts and coupons. Manufacturing and distribution revenues are recognized at the time of shipping and are recorded net of discounts. Sales include retail revenue from customers through corporate stores, revenue from manufacturing and distribution to retail store-owners and wholesale revenue to franchised stores. Returns are not significant.

The Corporation also earns franchise revenue from franchisees based on a percentage of their sales. All franchise revenue is recorded in the month in which it is earned

(k) Advertising

Advertising is expensed as incurred. Co-op advertising cost recoveries are recognized when the earnings process is complete, evidenced by an agreement between the Corporation and customer, there has been delivery of services and acceptance, collectibility is probable and pricing is fixed and determinable. The amounts recoverable are credited against marketing expenditures for financial statement presentation purposes.

(l) Income taxes

The asset and liability method is used for determining income taxes. Under this method, future tax assets and liabilities are recognized for the estimated tax recoverable or payable which would arise if assets and liabilities were recovered and settled at the financial statement carrying amounts. Future tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. Changes to these balances are recognized in income in the period in which they occur. To the extent that it is not considered to be more likely than not that a future income tax asset will be realized, a valuation allowance is provided.

Planet Organic Health Corp.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2006 and 2005

3. Significant accounting policies - Continued

(m) **Stock-based compensation**

Stock options issued are accounted for in accordance with fair value accounting for stock-based compensation. The associated compensation expense is charged to operations with a corresponding increase to contributed surplus, over the vesting period of the option. The fair value of each stock option granted is estimated on the date of grant using an option pricing model. As the options are exercised, consideration paid, along with the amount previously recognized in contributed surplus, is recorded as an increase to share capital.

(n) **Earnings per share**

Basic earnings per share is computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common and common equivalent shares outstanding during the period using the "treasury stock" method. Common equivalent shares consist of the incremental common shares issued upon the exercise of stock options and warrants unless their effect is anti-dilutive.

(o) **Deferred tenant inducements**

Deferred tenant inducements represent cash benefits received from landlords pursuant to store lease agreements. The lease inducements are amortized against rent expense over the term of the respective lease.

(p) **Use of estimates**

The preparation of the consolidated financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures made in the consolidated financial statements and accompanying notes. These estimates and assumptions are based on management's historical experience, best knowledge of current events and conditions and activities that may be undertaken in the future. Actual results could differ from these estimates.

Certain estimates, such as those related to valuation of inventories, goodwill, income taxes, Goods and Services tax, provincial sales taxes, and stock-based compensation, depend upon subjective or complex judgments about matters that may be uncertain, and changes in those estimates could materially impact the consolidated financial statements.

Planet Organic Health Corp.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2006 and 2005

4. Notes receivable

Notes receivable consist of amounts due from certain franchisees as set out below:

	2006	2005
Notes receivable bearing interest at prime plus 1.5% per annum with monthly principal and interest payments aggregating $4,590. The notes are secured by inventory held at each franchise store location.	$ 158,746	$ 217,908
Less current portion	(45,406)	(55,080)
	$ 113,340	$ 162,828

Estimated principal repayments over the next five years are as follows:

2007	$ 45,406
2008	48,689
2009	52,208
2010	12,443
	$ 158,746

5. Property and equipment

			2006
	Cost	Accumulated amortization	Net book value
Software	$ 81,342	$ 63,739	$ 17,603
Signage	23,257	773	22,484
Computers	88,895	39,568	49,327
Office equipment	268,318	148,063	120,255
Production equipment	1,595,185	900,470	694,715
Retail equipment and fixtures	2,340,211	944,018	1,396,193
Leasehold improvements	3,319,663	692,301	2,627,362
Building	744,464	407,105	337,359
Land	69,024	-	69,024
Construction in progress	677,402	-	677,402
	$ 9,207,761	$ 3,196,037	$ 6,011,724

Planet Organic Health Corp.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2006 and 2005

5. Property and equipment - Continued

	Cost	Accumulated amortization	2005 Net book value
Software	$ 46,733	$ 29,451	$ 17,282
Computers	136,205	77,483	58,722
Office equipment	64,600	24,004	40,596
Production equipment	1,477,867	835,039	642,828
Retail equipment and fixtures	2,199,731	922,083	1,277,648
Leasehold improvements	1,592,641	436,140	1,156,501
Building	2,299,009	392,842	1,906,167
Land	69,024	-	69,024
	$ 7,885,810	$ 2,717,042	$ 5,168,768

6. Deferred charges

	Cost	**Accumulated amortization**	**2006 Net book value**
Finance fees	**$ 5,000**	**$ 3,529**	**$ 1,471**
Guarantee fees	**208,000**	**99,572**	**108,428**
Development and pre-opening costs	**510,373**	**453,300**	**57,073**
	$ 723,373	**$ 556,401**	**$ 166,972**

	Cost	Accumulated amortization	2005 Net book value
Finance fees	$ 5,000	$ 2,814	$ 2,186
Guarantee fees	148,000	63,429	84,571
Development and pre-opening costs	403,610	259,096	144,514
Business acquisition costs	8,019	8,019	-
	$ 564,629	$ 333,358	$ 231,271

7. Deposits

	2006	2005
Rental deposits	**$ 83,951**	$ 53,694
Other deposits	**21,231**	3,252
	$ 105,182	$ 56,946

Planet Organic Health Corp.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2006 and 2005

8. Bank indebtedness

Bank indebtedness consists of the following:

		2006		2005
Cheques issued in excess of funds on deposit	$	**1,117,127**	$	377,628
Operating line of credit		**119,700**		80,000
	$	**1,236,827**	$	457,628

The Corporation has revolving credit facilities with Canadian chartered bank's for general corporate purposes of $1,500,000. Amounts may be borrowed under the facilities in Canadian dollars through prime rate loans, which bear interest varying from the bank's prime rate plus 0.25% per annum to bank's prime rate plus 1.25%.

The facilities are collateralized by registered general security agreements from the Corporation and a certain subsidiary of the Corporation, collateral mortgage on real property in British Columbia of $1,500,000, unlimited guarantees of a certain subsidiary and related companies and evidence of fire and liability insurance. The facilities also require the Corporation to meet certain financial ratios on a quarterly basis.

9. Deferred tenant inducements

		2006		2005
Balance, beginning of year	$	**180,280**	$	213,899
Inducements received		**59,706**		25,001
Amortization		**(69,411)**		(58,620)
		170,575		180,280
Less current portion		**(71,069)**		(61,120)
Balance, end of year	$	**99,506**	$	119,160

Deferred tenant inducements will be amortized over the next six years as follows:

2007	$	**71,069**
2008		**51,087**
2009		**24,356**
2010		**12,452**
2011		**9,953**
2012		**1,658**
	$	**170,575**

Planet Organic Health Corp.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2006 and 2005

10. Long-term debt

Long-term debt and capital leases outstanding consist of the following:

	2006	2005
Capital leases, at varying interest rates from 7.2% to 26.3% payable in monthly instalments of $421, secured by equipment with a net book value of $6,689 at June 30, 2006.	$ 8,103	$ 77,773
Term loan repayable in monthly installments of $11,610 which includes interest at 4.72%. The loan has a fifteen year term and security is comprised of a General Security Agreement representing a first fixed charge over all of the assets of Trophic Canada Inc. evidence of fire and liability insurance and a continuing collateral mortgage on real property in British Columbia of $1,500,000.	1,272,361	1,350,000
Related party loan, interest at 10%, due July 31, 2007, security being a general security agreement subordinated to the bank.	500,000	-
Non-interest bearing note, discounted at 10%, repayable at $8,000 per month with additional payments of $50,000 on July 31, 2006 and $54,000 July 31, 2007 and a final payment of $54,000 August 31, 2008.	314,664	-
Term loans interest at prime plus 1% to 10% repaid in 2006.	-	264,166
	2,095,128	1,691,939
Less current portion	(187,200)	(233,825)
	$ 1,907,928	$ 1,458,114

Estimated principal repayments over the next five years are as follows:

2007	$ 187,200
2008	747,924
2009	142,559
2010	93,298
2011	97,798
Thereafter	826,349
	$ 2,095,128

Planet Organic Health Corp.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2006 and 2005

11. Share capital

(a) Authorized

Unlimited number of:
Common shares
Preferred shares, issuable in series

(b) Common shares issued

	2006		2005	
	Number of shares	**Amount**	Number of shares	Amount
Balance, beginning of year	**27,889,763**	**$ 11,239,150**	12,290,567	$ 3,218,671
Issued on:				
Acquisitions - Note 2	**169,169**	**280,000**	10,110,296	4,087,700
Closing of a private placement	-	-	2,500,000	2,000,000
Exercise of options	**355,000**	**198,500**	145,000	44,000
Fair value transfer from contributed surplus on exercise of stock option	-	**20,009**	-	-
Exercise of warrants	-	-	2,263,900	1,471,535
Settlement of debt	-	-	580,000	435,000
Payment of guarantee fees	**60,000**	**60,000**		
Share issuance costs	-	-	-	(17,756)
Balance, end of year	**28,473,932**	**$ 11,797,659**	27,889,763	$11,239,150

Fiscal 2006 transactions:

The Corporation issued 60,000 common shares at a deemed price of $1.00 per share to a related party in exchange for a corporate guarantee on an outstanding loan. The guarantee fee is being amortized over three years, which is the expected term of the loan.

The Corporation issued 355,000 common shares upon the exercise of options at prices ranging from $.045 to $1.00 per share.

The number of outstanding shares at the beginning of the fiscal 2005 period have been adjusted by 30,000 shares for prior differences.

Planet Organic Health Corp.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2006 and 2005

11. Share capital - Continued

(b) Common shares issued

Fiscal 2005 transactions

The Corporation issued 145,000 common shares upon the exercising of options by certain directors and officers at prices ranging from $0.20 - $0.50 per share.

The Corporation issued 2,263,900 common shares upon the exercising of warrants at $0.65 per share.

The Corporation settled long-term debt aggregating $435,000 through the issuance of 580,000 common shares at a deemed price of $0.75 per share.

The Corporation completed a private placement offering of 2,500,000 units at a price of $0.80 per unit. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share at a price of $1.00 per share until August 11, 2006.

(c) Escrowed shares

Common shares issued in connection with the acquisitions completed during the year are subject to escrow conditions determined by the various regulatory authorities and management are released at specific intervals over the 36 months following the date of closing.

The following summarizes the status of common shares held in escrow as of June 30, 2006 and 2005 and the changes during the years then ended:

	2006 Number of shares	2005 Number of shares
Balance held in escrow, beginning of year	**2,158,717**	82,041
Escrowed shares arising from acquisitions	**169,169**	3,235,296
Released during the year	**(228,150)**	(1,158,620)
Balance held in escrow, end of year	**2,099,736**	2,158,717

Planet Organic Health Corp.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2006 and 2005

11. Share capital - Continued

(d) Stock option plan

Under the Corporation's stock option plan, the Corporation may grant options to employees, consultants, officers and directors totaling up to 10% of its issued and outstanding common shares. In addition, the aggregate number of shares so reserved for issuance to any one person shall not exceed 5% of the issued and outstanding common shares.

The following summarizes the status of the stock option plan as of June 30, 2006 and June 30, 2005 and the changes during the years then ended:

	2006		2005	
	Number of shares	**Weighted average exercise price**	Number of shares	Weighted average exercise price
Outstanding, beginning of year	**2,791,000**	**$ 0.85**	1,200,000	$ 0.56
Granted	**-**	**-**	1,736,000	1.00
Exercised	**(355,000)**	**0.56**	(145,000)	(0.30)
Outstanding, end of year	**2,436,000**	**$ 0.88**	2,791,000	$ 0.85
Exercisable, end of year	**2,436,000**	**$ 0.88**	2,791,000	$ 0.85

Additional information about stock options outstanding at June 30, 2006:

Grant date	Number of shares	Exercise price	Expiry date
March 27, 2003	**250,000**	0.50	March 26, 2008
April 12, 2004	**500,000**	0.70	April 11, 2009
February 9, 2005	**1,686,000**	1.00	February 8, 2010
	2,436,000		

No options were granted by the Corporation during fiscal 2006 (2005 – 1,736,000 options at $1.00 per share) to certain directors and employees. The options vest over a one to three year period and expire on February 8, 2010.

The fair value of the options at the date of grant have been calculated using the Black-Scholes Option Pricing Model with the following assumptions: 0% dividend rate, a risk free rate of interest of 3.37%, expected volatility of 29.55% and a term of five years (2005 – 0%, 3.57%, 29.55% and five years).

The resulting stock-based compensation expense for vested options of $325,543 (2005 - $176,633) has been charged to operations and contributed surplus accordingly.

Planet Organic Health Corp.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2006 and 2005

11. Share capital - Continued

(e) Warrants

In connection with the issuance of common shares by private placement, the Corporation has issued share purchase warrants entitling the holders to buy an equal number of common shares of the Corporation.

A summary of the status of the outstanding warrants as of June 30, 2006 and June 30, 2005 and changes during the periods then ended is presented below:

	2006 Number of warrants	2006 Weighted average exercise price	2005 Number of warrants	2005 Weighted average exercise price
Outstanding, beginning of year	**2,500,000**	**$ 1.00**	2,563,900	$ 0.65
Issued	-	-	2,500,000	1.00
Expired	-	-	(300,000)	(0.65)
Exercised	-	-	(2,263,900)	(0.65)
Outstanding, end of year	**2,500,000**	**$ 1.00**	2,500,000	$ 1.00
Exercisable, end of year	**2,500,000**	**$ 1.00**	2,500,000	$ 1.00

The outstanding warrants entitle the holders thereof the right to purchase one common share for each warrant held expiring August 11, 2006. The option warrants were exercised prior to the expiry date.

12. Contributed surplus

	2006	2005
Contributed surplus		
Balance beginning of year	**$ 293,082**	$ 116,449
Stock-based compensation	**325,543**	176,633
Transfer on exercise of options	**(20,009)**	-
Balance end of year	**$ 598,616**	$ 293,082

Planet Organic Health Corp.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2006 and 2005

13. Income taxes

The income tax provision differs from the income taxes obtained by applying the effective corporate tax rate and is reconciled as follows:

	2006	2005
Earnings (loss) before income taxes	$ 1,714,744	$ 470,906
Corporate tax rate	35%	37.5%
Calculated income tax expense (recovery)	600,160	177,000
Adjustments for:		
Non-deductible expenses	45,806	38,000
Stock-based compensation	113,940	62,000
Unrecognized future tax benefits	(305,128)	-
Income tax expense	$ 454,778	$ 277,000

Income tax expense is comprised of the following:

	2006	2005
Current	$ 526,863	$ 277,000
Future	(72,085)	-
	$ 454,778	$ 277,000

Temporary differences and loss carryforwards that give rise to future income tax assets and liabilities as of June 30, 2006 and 2005 are as follows:

	2006	2005
Future income tax assets and liabilities		
Non-capital loss carryforwards	$ 22,056	$ 269,000
Share issuance costs	16,546	32,000
Plant and equipment	(45,350)	72,000
Goodwill	(84,582)	14,000
Total future income tax assets	(91,330)	387,000
Valuation allowance	-	(387,000)
	$ (91,330)	$ -

Planet Organic Health Corp.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2006 and 2005

14. Related party transactions

The Corporation entered into the following transactions with related parties:

The Corporation paid to directors, either directly or indirectly to companies controlled by them, the following amounts:

	2006	2005
For retail merchandise purchases	**$ 2,368,901**	$ 1,200,917
For consulting fees	**387,728**	265,468
For interest	**50,016**	10,875
For rent	**8,132**	6,226
For legal services	**2,825**	8,800

The above transactions were in the normal course of operations and were recorded at the exchange value, which was the amount of consideration established and agreed to by the related parties.

Included in accounts payable and accrued liabilities is $20,352 (2005 - $75,976) relating to these transactions.

15. Financial instruments

Fair values

The carrying amounts of the Corporation's financial instruments, including cash and cash equivalents, bank indebtedness, accounts payable and accrued liabilities approximate their fair values due to the short-term nature of the instruments.

The fair value of the Corporation's note receivable, long-term debt and capital leases approximates their carrying value due to the variable interest rate feature of the long-term debt and notes receivable and the rate at which the Corporation computes present value of the capital lease obligation has remained consistent overtime and the Corporation's ability to borrow currently approximates that at which the Corporation entered into those obligations.

Credit risk

Financial instruments, which potentially subject the Corporation to concentrations of credit risk, consist primarily of bank indebtedness, accounts receivable and notes receivable. The Corporation performs ongoing credit evaluations of its customers' financial condition and limits the amount of credit extended when deemed necessary. The Corporation maintains adequate reserves for potential credit losses as estimated by management.

Interest rate risk

Financial instruments, which potentially subject the Corporation to concentrations of interest rate risk, consist primarily of bank indebtedness and long-term debt as the lending agreements calculate interest based on the bank's prime lending rate.

Planet Organic Health Corp.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2006 and 2005

16. Commitments

The Corporation is committed pursuant to lease agreements for retail space and equipment to minimum annual payments, not including operating costs, as follows:

2007	**$ 1,020,000**
2008	**1,111,000**
2009	**1,113,000**
2010	**1,133,000**
Subsequent	**1,133,000**
	$ 5,510,000

The Corporation is lessee under head lease agreements for retail space occupied by various franchisees. The Corporation has entered into sublease agreements with franchisees whereby the franchisee pays the total lease payments due under the head leases. Annual head lease payments and corresponding sublease recoveries approximate $800,000 per year. Existing lease terms have expiry dates ranging from 2007 to 2010. Renewal of head leases and subleases are in the normal course of business.

17. Segmented information

All of the Corporation's assets, operations and employees are located in Canada. Segmented information for the operating divisions is as follows:

	Retail division	**Manufacturing division**	**Franchise division**	**2006 Total**
Revenues	**$ 27,792,157**	**$ 6,078,571**	**$ 3,927,073**	**$ 37,797,801**
Expenditures	**27,344,469**	**5,571,672**	**3,621,693**	**36,537,834**
Income before taxes	**372,392**	**937,565**	**404,787**	**1,714,744**
Identifiable assets	**10,182,683**	**4,529,858**	**5,078,127**	**19,790,668**

	Retail division	Manufacturing division	Franchise division	2005 Total
Revenues	$ 20,183,258	$ 2,949,594	$ 4,536,111	$ 27,668,963
Expenditures	20,499,961	2,542,154	4,103,677	27,145,792
Income before taxes	(368,968)	407,440	432,434	470,906
Identifiable assets	6,227,217	4,732,080	4,138,157	15,097,454

Planet Organic Health Corp.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2006 and 2005

18. Subsequent events

(i) On August 9, 2006, 2,500,000 warrants were exercised at an exercise price of $1.00 per warrant.

(ii) On September 11, 2006, the Corporation completed the acquisition of The Big Fresh Inc. in Edmonton, Alberta for $670,000. The acquisition was settled with the following terms: $303,000 cash, $100,000 in shares of the Corporation, holdback of $67,000, and assumed liabilities of $200,000. The acquisition is subject to final post-closing adjustments.

(iii) On October 5, 2006, the Corporation opened a new location in Calgary, Alberta under the Planet Organic Market banner.

(iv) The Corporation has a construction loan of $1.5 million. $700,000 has been drawn on the loan in the first quarter of 2007.

19. Comparative figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

PLANET ORGANIC

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